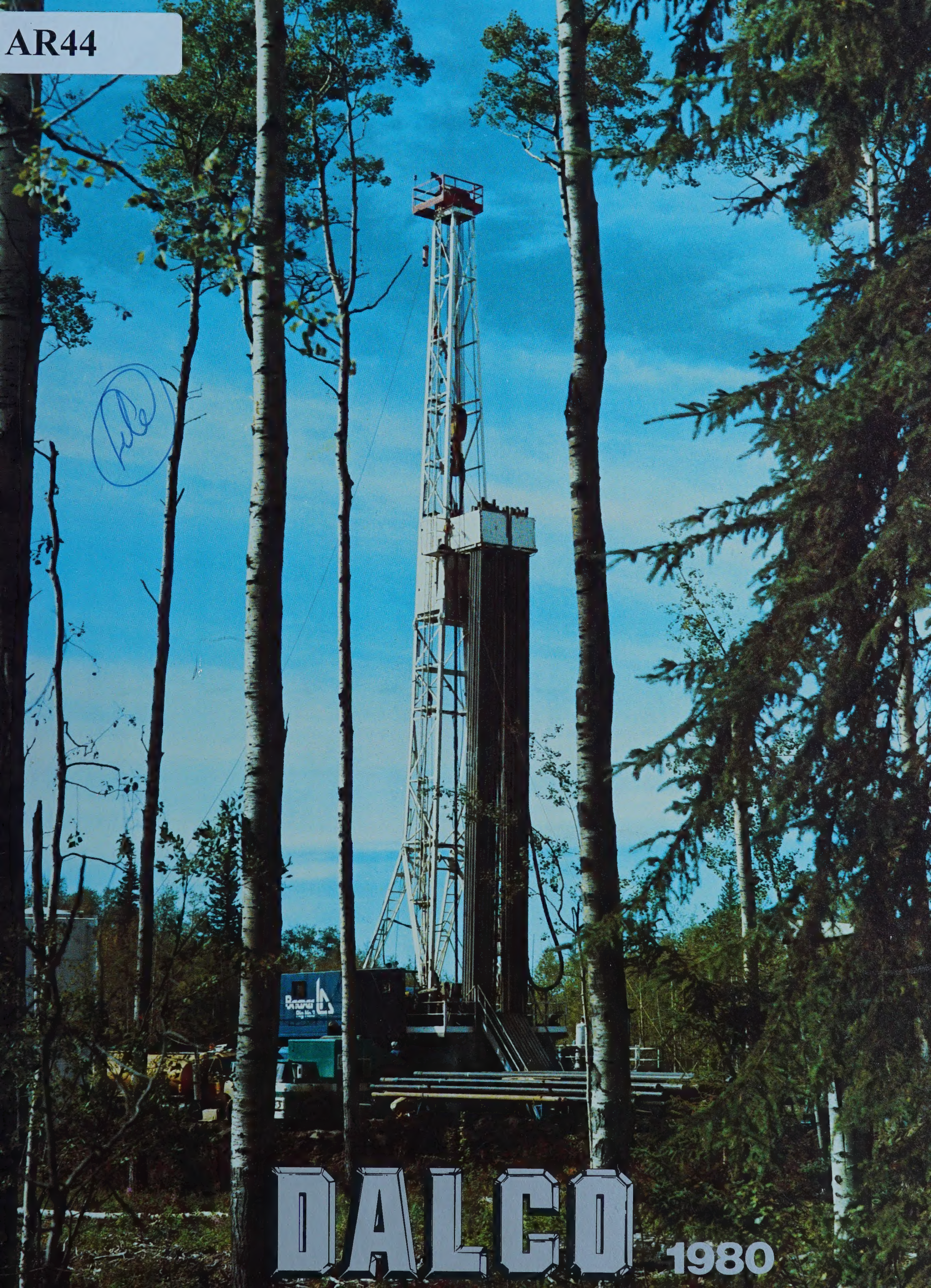


DALCO

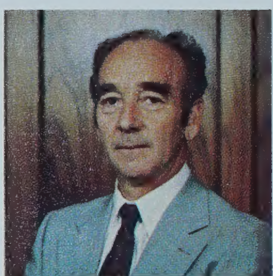
1980

Company Information

DIRECTORS

Arthur R. Smith
Vice-President
Allarco Developments Ltd.

George W. Oughtred
President
Commercial Oil & Gas Ltd.



Derek Whittle
Co-Chairman
MerBanco Group

Louis Porter
Chairman of the Board
Chairman
Dalco Petroleum Corporation

John R. Thomas
President
Dalco Petroleum Corporation

Wayne R. Sharp
President
Dalco Petroleum Ltd.

Murray L. Dea
Executive Vice-President
Dalco Petroleum Ltd.

OFFICERS

Wayne R. Sharp, President
Murray L. Dea, Executive Vice-President
Deane G. H. Ross, Vice-President Exploration
Robert D. Weir, Vice-President Production
Richard E. Cheetham, Secretary and Land Manager
Mori J. Ohara, Treasurer

HEAD OFFICE

2001 Suncor Tower
500 - 4th Ave. S.W.
Calgary, Alberta
T2P 2V6

SUBSIDIARY COMPANIES

Dalco Petroleum U.S., Ltd.

SOLICITORS

Code Hunter
100 - 640 - 7th Ave. S.W.
Calgary, Alberta
T2P 3A6

AUDITORS

Peat, Marwick, Mitchell & Co.
2500, 700 - 2nd St. S.W.
Calgary, Alberta
T2P 2W2

TRANSFER AGENTS

Royal Trust Corporation of Canada in Calgary, Toronto, Montreal, Winnipeg, Vancouver, Edmonton and Halifax

STOCK LISTING

Toronto Stock Exchange
Alberta Stock Exchange
Montreal Stock Exchange
(Symbol — DPL)

DALCO

Corporate Profile

Dalco Petroleum Ltd. is an Alberta corporation formed on May 30, 1979 as a result of the amalgamation of M-P Petroleum Ltd. and three other related companies. The company has continued the operations of its predecessors which began in early 1974. The company originally emphasized development and production of shallow gas in southeastern Alberta and this area still provides the reserves and cash flow base for the company. Dalco has since expanded its exploration efforts to include all of Alberta, British Columbia and many of the western United States. In late 1979 the company established a wholly owned subsidiary in Oklahoma and has made a very substantial expansion through acquisition of land and through drilling to earn petroleum and natural gas rights in the U.S.A. The principal areas of activity are Texas and Oklahoma. Dalco also operates a contract drilling division which is being expanded through construction of a fourth drilling rig. The company continues to operate its LPG Marketing division which was its initial endeavor in Canada.

As of September 15, 1980, Dalco's 7,350,000 outstanding shares were held by 951 registered shareholders. Dalco Petroleum Corporation, a U.S. public company, held 5,470,000 of these shares.

Annual General Meeting

The annual General Meeting of the Shareholders will be held in the Britannia Room of the Calgary Inn, Calgary, Alberta on Tuesday, October 14, 1980 at 9:00 a.m.

Highlights

Range of Market Prices on Common Shares

ALL STOCK EXCHANGES

	February	March	April	May	Annual (4 Months)
HIGH	$10\frac{3}{4}$	$11\frac{1}{4}$	$9\frac{1}{8}$	$9\frac{3}{4}$	$11\frac{1}{4}$
LOW	$9\frac{3}{4}$	8	$7\frac{1}{2}$	$7\frac{3}{8}$	$7\frac{3}{8}$
VOLUME	143,805	193,485	81,520	117,270	536,080

Company Information

DIRECTORS

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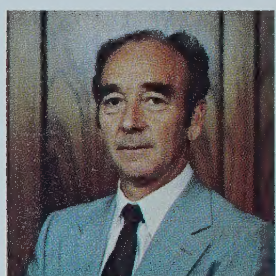
Vice-President
Allarco Developments Ltd.

George W. Oughtred
President
Commercial Oil & Gas Ltd.



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MerBanco Group

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Chairman
Dalco Petroleum Corporation

John R.
Presi
Dalco Petroleu

Wayne R. Sharp
President
Dalco Petroleum Ltd.

Murray L. Dea
Executive Vice-President
Dalco Petroleum Ltd.

DALCO

COVER

The cover picture features a drilling rig on Dalco et al NIPISI 15-11-81-9 W5M in North Central Alberta. This property is one of the more significant discoveries made by the company and now has two completed oil wells with a total of 2,237,000 barrels of proven recoverable oil.

Highlights

Range of Market Prices on Common Shares

ALL STOCK EXCHANGES

	February	March	April	May	Annual (4 Months)
HIGH	$10\frac{3}{4}$	$11\frac{1}{4}$	$9\frac{1}{8}$	$9\frac{3}{4}$	$11\frac{1}{4}$
LOW	$9\frac{3}{4}$	8	$7\frac{1}{2}$	$7\frac{3}{8}$	$7\frac{3}{8}$
VOLUME	143,805	193,485	81,520	117,270	536,080

Report to the Shareholders

On behalf of the Board of Directors, I wish to present your company's first annual report as a public company and the audited financial statements to May 31, 1980. It is particularly pleasing to be able to report substantial gains and growth in all facets of Dalco's operations and we project continued gains in all standards of performance.

One of the most significant events of the past year was the change from a closely held private corporation to a widely held public company listed on the Alberta, Toronto and Montreal Stock Exchanges. The public distribution of 1,700,000 shares made up of 950,000 treasury shares and 750,000 shares previously issued to the parent company, Dalco Petroleum Corporation, of Tulsa, Oklahoma was completed on February 6, 1980. The stock was first listed for trading on the Alberta Stock Exchange on February 18, 1980 and the Toronto Stock Exchange and Montreal Stock Exchange on April 3, 1980. As noted in the financial statements this resulted in an increase in available cash to the company of $9,014,000 and enabled us to embark on a rapid expansion of our exploration and development programs. The funds were used for acquisitions of properties in the Cotton Valley trend of East Texas, in the Austin Chalk play in Central Texas, in the Olmos sand play on the Galvan Ranch in Southwest Texas and in the Hunton trend in Canadian County, Oklahoma. The company has made several acquisitions of exploration acreage in Alberta and British Columbia including the Rattlesnake property in the Medicine Hat area.

In the past year the company has had dramatic increases in all parameters by which progress is measured such as land holdings, discoveries, oil and gas reserves, production revenue, cash flow and net earnings. We feel that the recent undeveloped acreage acquisitions when explored and developed will continue this trend in the following years.

Gross income for the year totalled $27,575,000 showing an increase of $15,750,000 or 133% from $11,825,000 last year. Net Earnings amounted to $3,218,000 (48¢ per share) compared with $2,040,000 (32¢ per share) earned in 1979. Cash flow generated from operations amounted to $6,643,000 representing 99¢ per share and reflecting an increase of $3,727,000 (128%) over last year's $2,916,000 or 46¢ per share. Capital expenditures, primarily for the oil and gas operations, totalled $21,698,000 compared with $6,540,000 in 1979.

During the past year, your company participated in the drilling of 78 wells which resulted in 16 oil wells, 48 gas wells, 3 dual oil and gas wells and 11 dryholes for a success ratio of 85.9%. Included in the above figures are 24 wildcat exploration wells which had a success ratio of 70.8%. The company now has interests in 273 producing gas wells and 37 shut-in gas wells and 26 producing oil wells for a total of 336 wells. Production rates and revenues continued to increase during the past year such that the company's revenue from oil and gas production reached $7,203,000.

Gross natural gas production averaged 16.01 MMCFD as compared with 14.28 MMCFD in 1979. Gross crude oil production averaged 132 barrels per day compared with 72 barrels per day last year.

The contract drilling division continued to enjoy high activity rates and increased revenues with total revenue reaching $6,024,000. Expansion of this division by the addition of another rig should increase earnings in the next year.

The Marketing Division has just completed a record year in both volume and profit margin. The net revenue contribution by the division increased by 247%. The increase was achieved to a large extent through the hiring of additional trading staff, enabling the company to take advantage of the unusual market conditions of the past winter.

During the year Dalco Petroleum Ltd. was very fortunate in the appointment to the Board of Directors of four prominent individuals, Mr. Arthur Smith, Mr. George Oughtred, Mr. J. R. Thomas and Mr. Derek Whittle. All have been helpful during the transition period from a private to a public corporation and in the subsequent period by introductions to potential drilling partners and in assisting in financing and public relations.

OUTLOOK

The future continues to appear bright for the company despite the current unsettled political climate in Canada. Some progress has been achieved towards further gas exports and a resolution of the current surplus of gas in Canada as well as in resource pricing. We anticipate a period of continued confrontation between the Federal and Provincial governments over control of the energy resources of Canada. This conflict is very deep seated and we foresee a period of perhaps two years during which the industry will be forced to proceed in an uncertain political climate. We take encouragement from the fact that the two governments are beginning to recognize the need for higher returns to the industry to allow Canada to compete for international investment dollars and to progress toward energy self sufficiency. The company has moved to hedge against a possible domestic slow down due to lack of competitive opportunities in Canada by establishing a strong position in the United States. We anticipate sales prices in the United States of $46.00 (Canadian) per barrel compared with $16.75 per barrel in Canada and $4.00 per MCF compared with $2.50 per MCF for gas.

The company plans to continue acquisitions in Canada and the U.S.A. but emphasis will be switched to exploration and development of the present land position. The increased production from these drilling programs will continue to add to the company's earnings.

The contract drilling division, Dolphin Drilling, continues to enjoy full utilization of equipment. A minor slow down is expected during the coming summer but overall activity and revenue is expected to remain high.

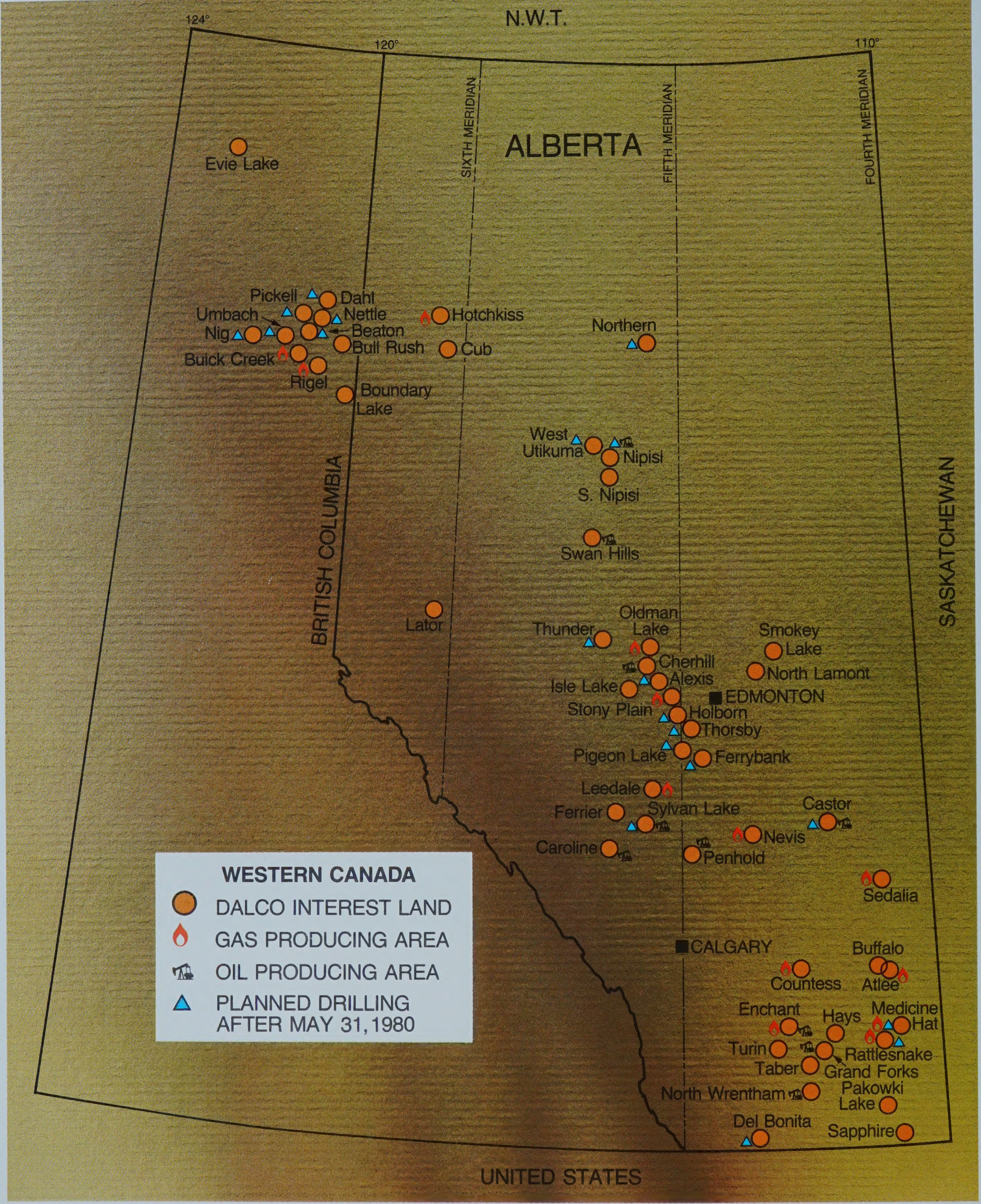
The LPG Marketing division expects to continue its current activity level, however, some reduction in revenues and profits is to be expected after the recent rapid expansion and the record levels of the past year.

We wish to take this opportunity to thank our shareholders for their support and continued interest in the progress of Dalco Petroleum Ltd.

The progress of the company during the past year could not have been achieved without the diligent efforts of its employees who are one of the company's most valued resources. We extend our gratitude to all our employees for their contributions to the company's success.

Calgary, Alberta
September 18, 1980

Wayne R. Sharp
President


N.W.T.
124°
120°
110°
SIXTH MERIDIAN
FIFTH MERIDIAN
FOURTH MERIDIAN
ALBERTA
BRITISH COLUMBIA
SASKATCHEWAN
UNITED STATES
Evie Lake
Pickell
Dahl
Umbach
Nettle
Nig
Beaton
Buick Creek
Bull Rush
Rigel
Boundary Lake
Hotchkiss
Cub
Northern
West Utikuma
Nipisi
S. Nipisi
Swan Hills
Lator
Thunder
Oldman Lake
Smokey Lake
Cherhill
Alexis
North Lamont
Isle Lake
EDMONTON
Stony Plain
Holborn
Thorsby
Pigeon Lake
Ferrybank
Leedale
Ferrier
Sylvan Lake
Castor
Nevis
Caroline
Penhold
Sedalia
CALGARY
Buffalo
Countess
Atlee
Enchant
Hays
Medicine Hat
Turin
Rattlesnake
Taber
Grand Forks
North Wrentham
Pakowki Lake
Del Bonita
Sapphire
WESTERN CANADA
DALCO INTEREST LAND
GAS PRODUCING AREA
OIL PRODUCING AREA
PLANNED DRILLING AFTER MAY 31, 1980

DALCO

Petroleum Division

EXPLORATION & DEVELOPMENT

Dalco participated in the drilling of 78 wells during the fiscal year ending May 31, 1980, the results of which are tabulated below:

DRILLING ACTIVITY 1980

	OIL	GAS	DRY	TOTAL
Development	7	43	4	54
Exploratory	12	5	7	24
Total	**19**	**48**	**11**	**78**

Successful wells were drilled in the following areas. Forty-one gas wells and ten oil wells were drilled in Alberta; two gas wells in British Columbia; two gas wells in Montana; two gas wells in New Mexico; eight oil wells in Oklahoma; one oil well and one gas well in Texas.

WESTERN CANADA

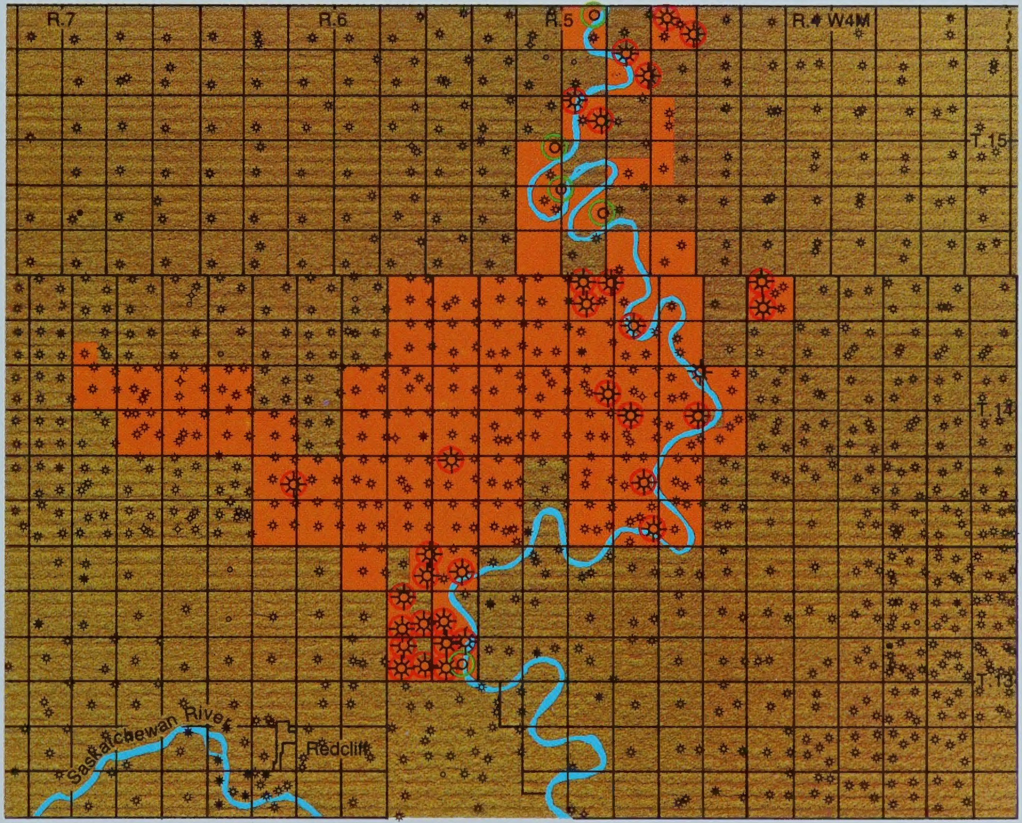
The Company's exploration efforts in fiscal 1980 were concentrated in acquiring acreage positions in potential oil producing areas, or in gas prone areas where there was the possibility of acquiring gas sales contracts.

Areas of particular success or anticipated activity include the following:

Medicine Hat

The most valuable properties owned by the company are the four properties situated in the Medicine Hat area of

Drowning Ford Compressor Station with South Saskatchewan River in background

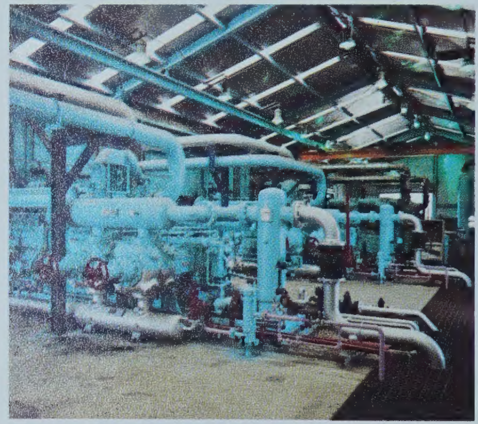


MEDICINE HAT AREA

- DALCO INTEREST LANDS
- LOCATION
- OIL WELL
- GAS WELL
- OIL & GAS WELL
- DRY & ABANDONED
- WELLS DRILLED FISCAL YEAR 1980
- PLANNED DRILLING AFTER MAY 31, 1980

Alberta. These properties produce from shallow Cretaceous age gas reservoirs known as the Milk River, Medicine Hat and Second White Specks zones and provide the reserve and cash flow base of the company. These wells are in an advanced stage of production with stable decline rates which indicate that the wells have some 40 plus years of productive life remaining. The majority of the gas in these areas is under long term contracts to TransCanada Pipelines Limited which contain "take or pay" provisions requiring the purchaser to take approximately 90% of the gas available or make advance payments against future delivery of the gas. The only gas not contracted to TransCanada is the gas in the Redcliff project which will be produced as fuel gas for the compressor stations in the area.

The company's interest in these properties varies between 10% and 100% working interests and averages 68.5% in a total of 47,500 acres. The company acts as operator for these projects which consist of two compressor stations, gathering systems and 273 gas wells. The average production during the past year was 16.01 MMCFD. The gross reserves assigned to these projects by independent studies were 163.5 BCF.



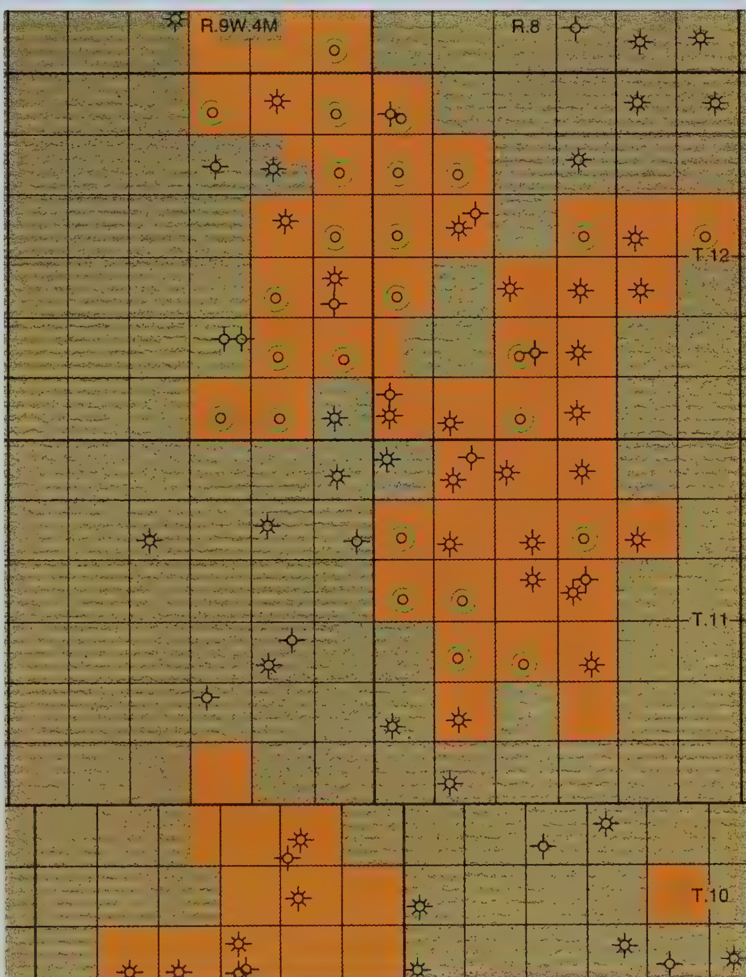
Channel Lake Compressor Station

Les Margetak, Production Technologist, and Bob Weir, Vice President, Production, selecting completion interval

DALCO

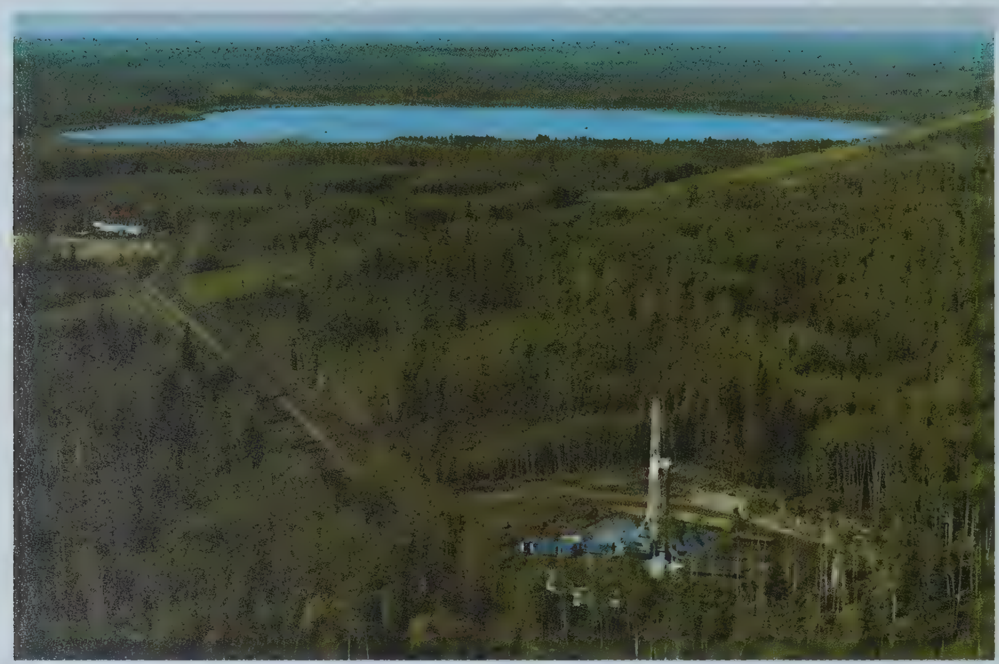
Rattlesnake

In December of 1979 Dalco acquired a 47.5% interest in 40,000 acres of a partially developed project in the Medicine Hat area designated as the Rattlesnake property. This property had 27 shut in wells with gas production potential in the Medicine Hat and Second White Specks zones. The property will be a continuation of Dalco's operations and will make use of technology developed by the company for the general area. The company is currently negotiating a gas sales contract and plans to develop and place the existing wells and a further 20 to 30 new wells on stream in November of 1980. The contract will be for a gross rate of 6.0 MMCFD. An independent study has assigned reserves of 18.9 BCF to this project. After gathering initial production history further development of the property is anticipated.



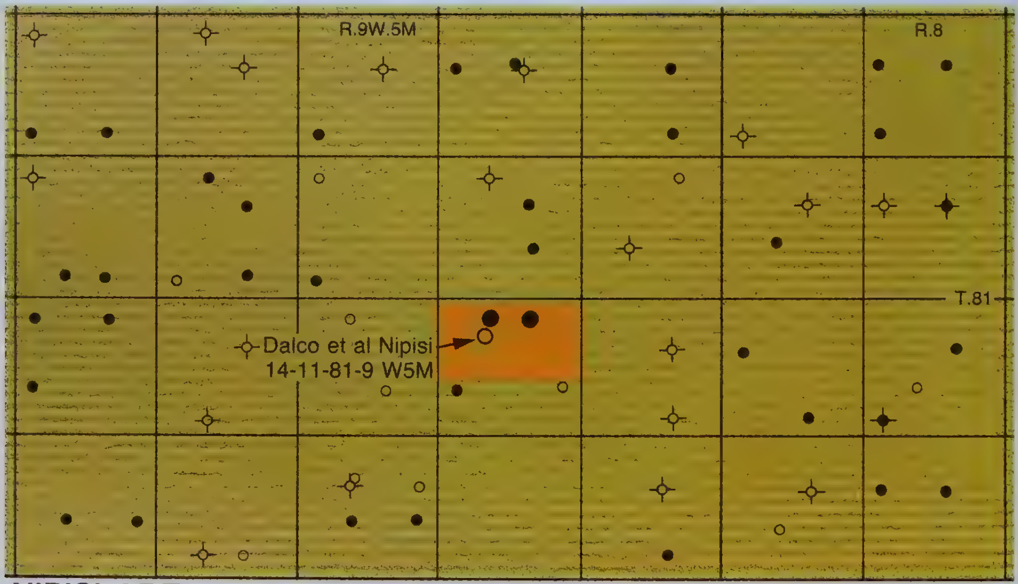
RATTLESNAKE AREA

- DALCO INTEREST LANDS
- PLANNED DRILLING AFTER MAY 31, 1980
- LOCATION
- GAS WELL
- DRY & ABANDONED



Nipisi

Dalco holds a 47.5% working interest in 320 acres in the Nipisi area. In 1978 your company participated in the drilling of a dual zone oil discovery in Lsd 14-11-81-9 W5M. This well was put on stream as a flowing Keg River sand oil well with oil production potential behind pipe in the Gilwood sand. In September of 1979 Dalco participated in the drilling of a development well in Lsd 15-11-81-9 W5M. This well has been completed as a successful Keg River oil well. Gross reserves of 2,237,000 barrels of oil have been established for the Nipisi properties. Monthly production from this property averages 6,414 barrels of oil. Dalco's 1981 plans include the drilling of a twin well in Lsd 14-11-81-9 W5M to produce the oil reserves in the Gilwood sand.



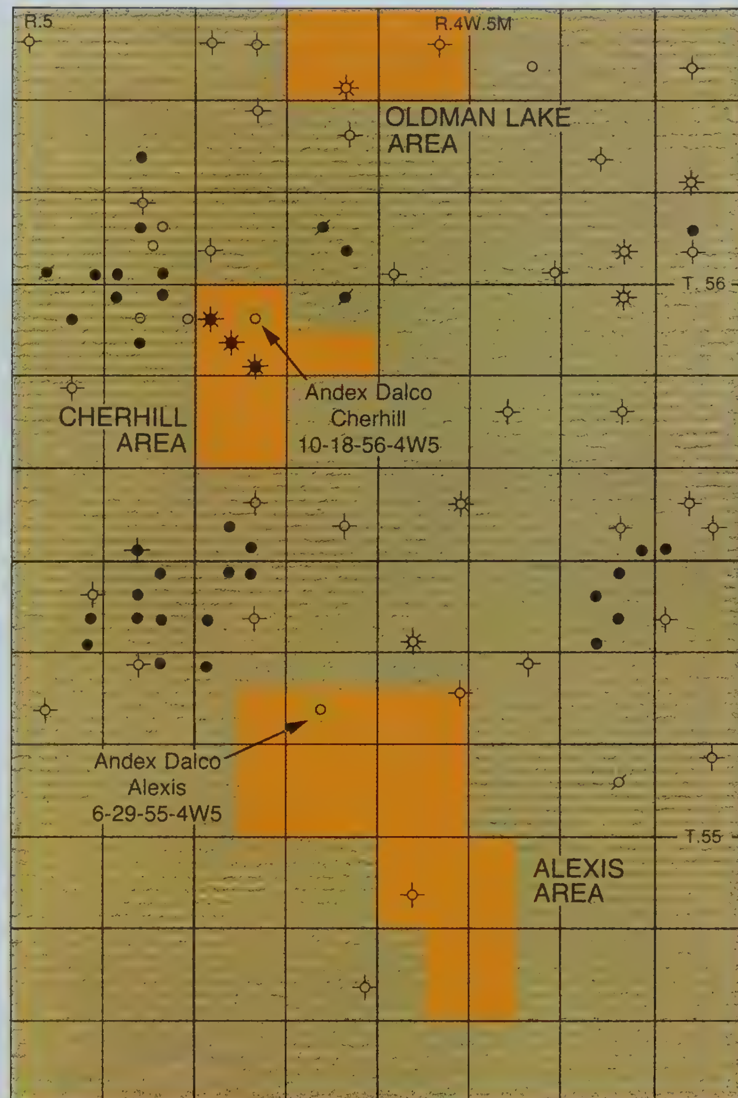
NIPISI AREA

DALCO INTEREST LANDS
PLANNED DRILLING AFTER MAY 31, 1980
LOCATION
OIL WELL
DRY & ABANDONED

Cherhill

Your company holds a 23.25% working interest in three multi-zone oil and gas wells and one single zone gas well drilled during the year. The Cherhill discovery well drilled in Lsd 2-18-56-4 W5M tested oil to surface from the Banff zone, 4.0 MMCFD from the Viking sand, 5.7 MMCFD from the Ostracod sand, and 2.2 MMCFD from the Glauconite zone. Gross oil reserves of 1,302,000 barrels have been proven in the Mississippian Banff formation with a further 1,209,000 barrels considered probable. Total gas reserves of 8.06 BCF have been established. Future plans include the drilling of a development well in Lsd 10-18-56-4 W5M and an exploratory well in Lsd 6-29-55-4 W5M on the Alexis acreage. A seismic program has been completed at Alexis with preliminary indications of an anomaly similar to that drilled at Cherhill.

The technical staff of the Exploration and Land departments

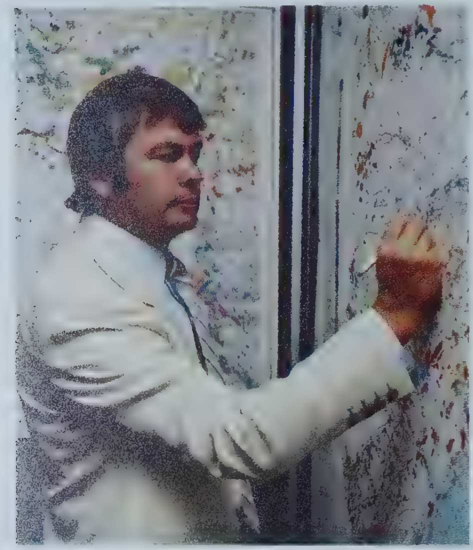


CHERHILL AREA

UNITED STATES

Through its wholly-owned subsidiary, Dalco Petroleum U.S., Ltd., your Company has begun an active exploration program in the United States. The movement of a substantial portion of the exploration budget to programs in the United States is felt necessary because of the lack of marketability of natural gas found in Western Canada and the substantially higher crude oil prices available to producers in the U.S.

Results of your Company's initial efforts have been most gratifying. Two gas wells have been drilled in Montana with additional drilling to be carried out in fiscal 1981. Two prospects have been delineated in Wyoming and will be drilled in the summer of 1980. A 42.75% interest in 46,000 acres in South Dakota has been acquired. Two successful gas wells have been drilled in N.W. New Mexico and another well is drilling in the S.E. portion of the state.



Deane Ross, Vice-President Exploration

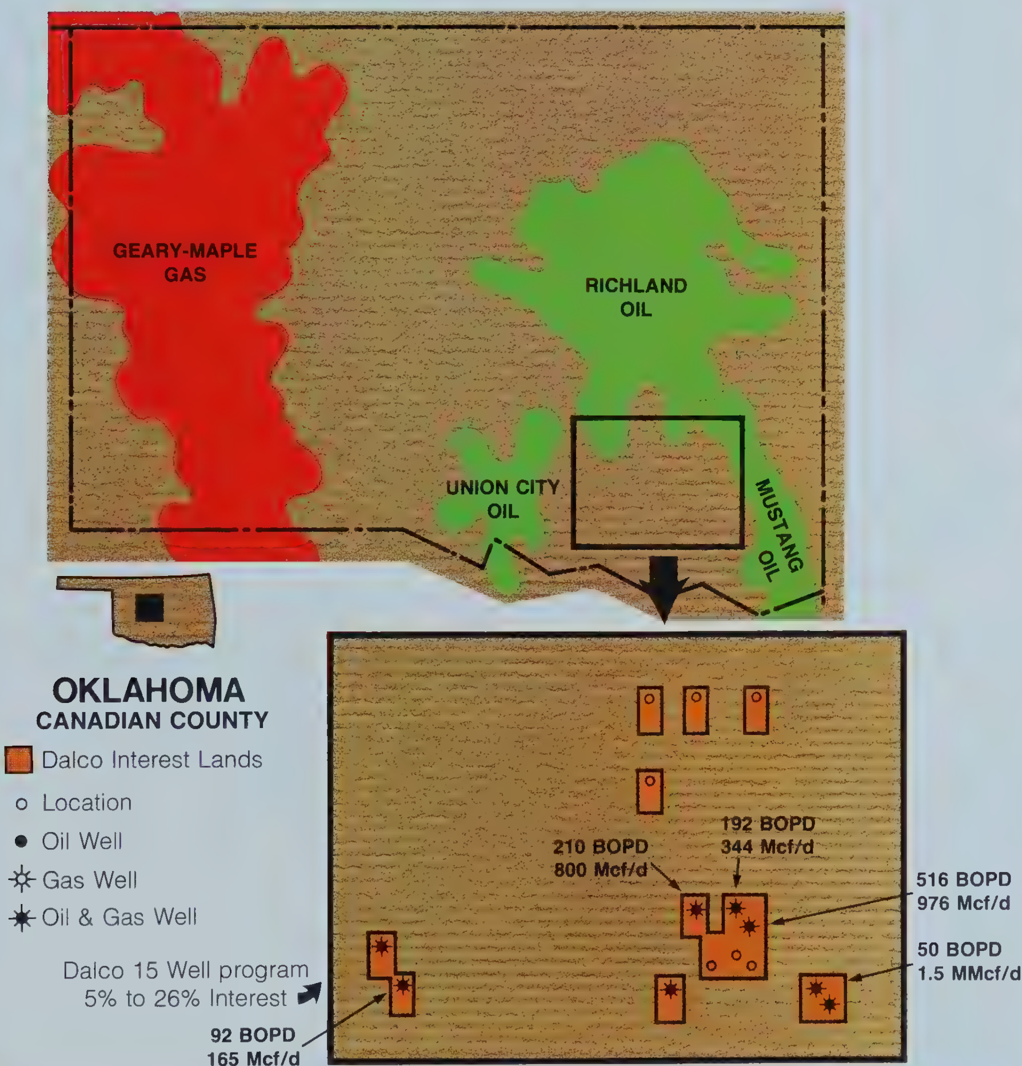
Major exploration programs are in progress in the following areas:

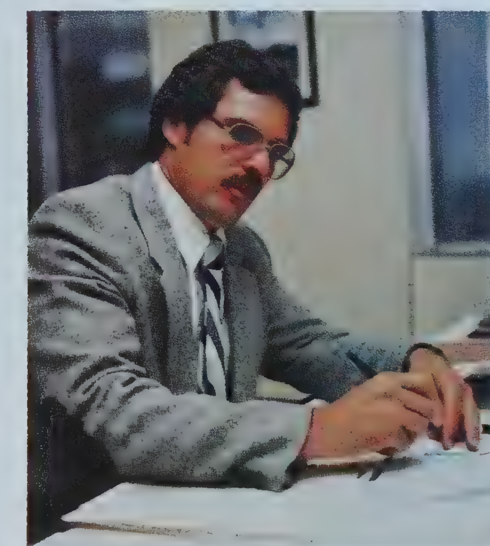
Oklahoma — Payne County

The company has acquired a 47.5% interest in 1,072 gross acres in Payne County, Oklahoma. This prospect is located on trend with a recent successful Bartlesville sand development program. Dalco will drill the first exploratory well on these properties in September of 1980.

Oklahoma — Canadian County

The company has initiated a 15 well drilling program in Canadian County, Oklahoma. At May 31, 1980, eight successful oil and gas wells have been drilled and completed. Dalco's working interests vary from 5% to 26% in this program with average well depths of 9,500 feet. The completed wells are multi-zone producers and are presently shut in, waiting on pipeline facilities which should be in place during the summer of 1980. Initial test rates have been as high as 516 barrels of oil per day and 976 MCFD of natural gas. A price of $40.00 (U.S.) per barrel of oil is anticipated.





Jake Pronk, Exploration Geologist

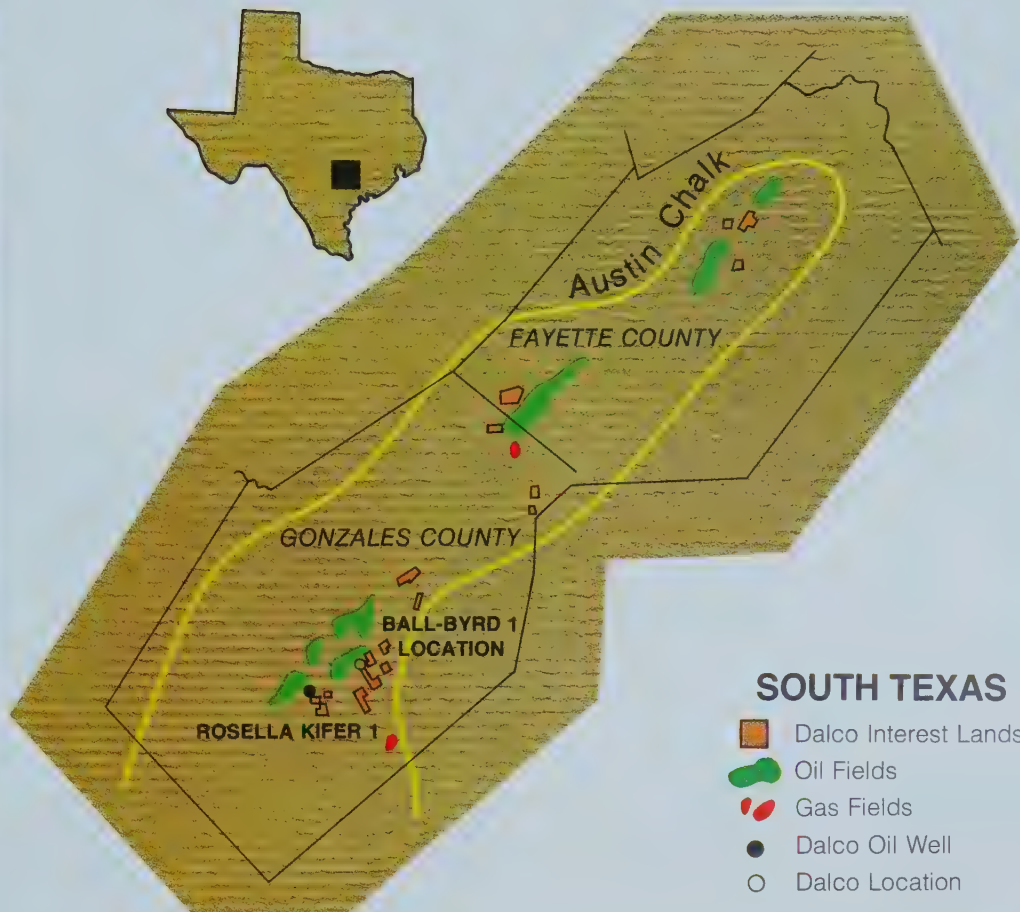
Texas — Gonzales, Fayette Counties

Your company is participating in an active exploration program along the prolific Austin Chalk trend. Dalco's working interests vary from 19% to 30% in 6,791 gross acres. The initial well in this program, Rosella Kifer #1, has been drilled to 7,770 feet and completed as an Austin Chalk oil well. Initial flow rates of 32 barrels of oil per hour have been gauged, however, the well will be limited to a pool allowable of 125 barrels per day. A second well, Ball-Byrd #1, is presently drilling. Your company plans to increase its working interest in this program and conduct an aggressive program of additional acquisitions, geophysics and drilling.

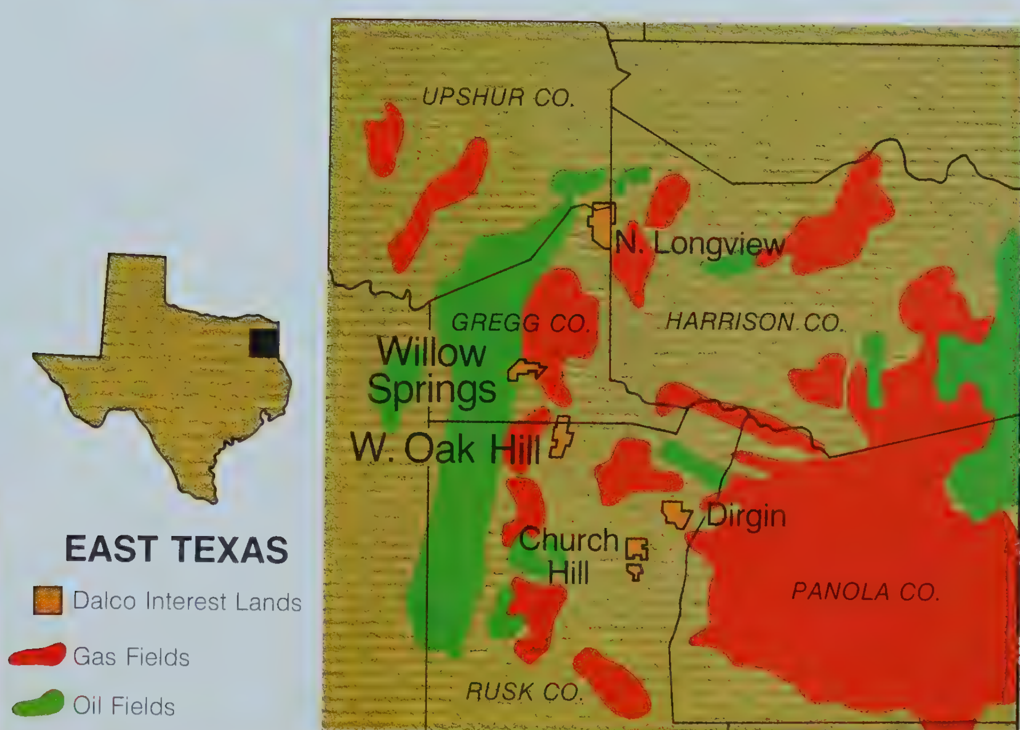
East Texas Project

In Gregg, Rusk and Upshur Counties of East Texas, your company has acquired an 85.5% working interest in 8,853 gross acres. This acreage is located along the prolific Cotton Valley formation trend. The first well in this program has been drilled and completed as a shallower Travis Peak zone gas well with a total depth of 7,542 feet. The O.V. Bennett #1 is presently waiting on a fracture treatment and pipeline connection. An offset well, the W.P. Prior #1, has been spudded. The first 11,000 foot Cotton Valley test, Dalco W.H. Dirlam #1 has begun drilling and is proceeding satisfactorily towards its objective.

Greg Iwanika, Exploration Geologist



Austin Chalk
FAYETTE COUNTY
GONZALES COUNTY
BALL-BYRD 1 LOCATION
ROSELLA KIFER 1
SOUTH TEXAS
Dalco Interest Lands
Oil Fields
Gas Fields
Dalco Oil Well
Dalco Location



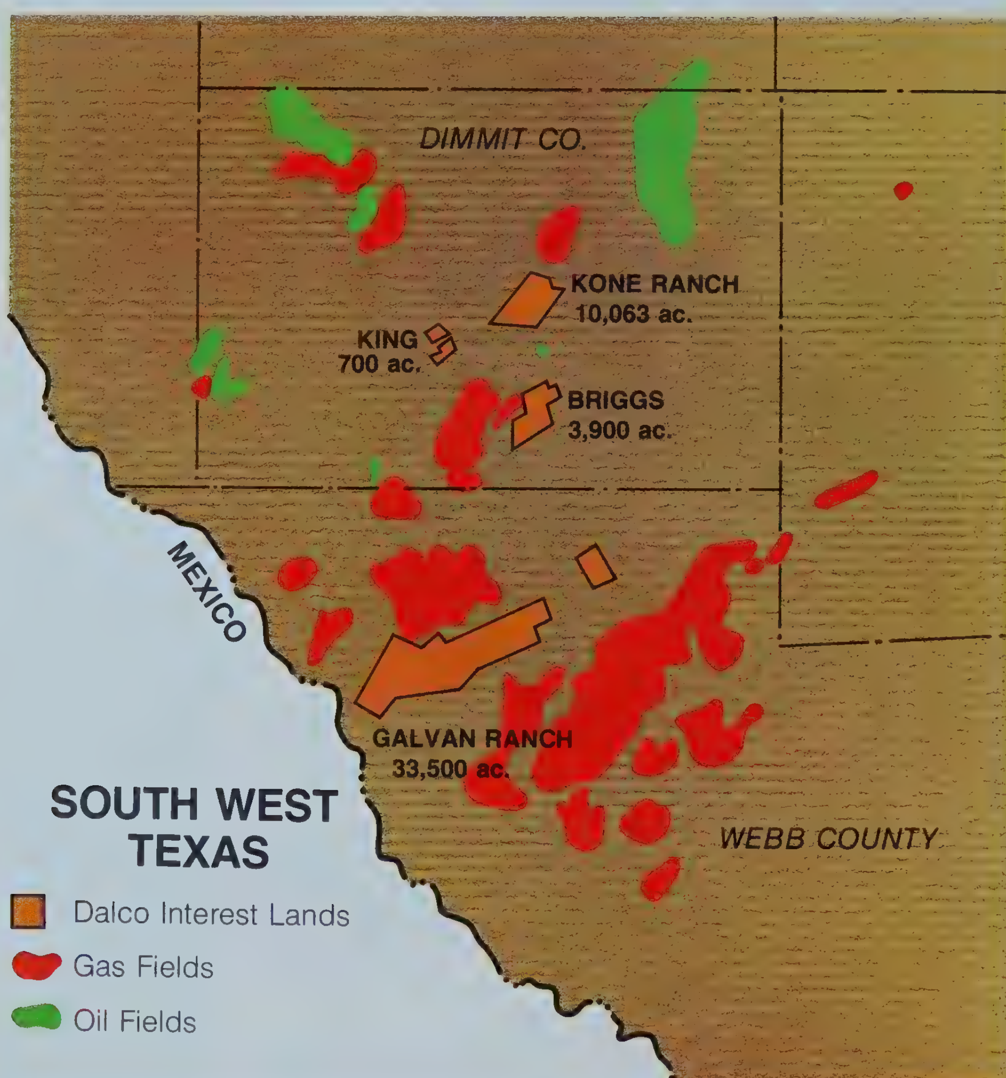
UPSHUR CO.
N. Longview
GREGG CO.
HARRISON CO.
Willow Springs
W. Oak Hill
Dirgin
Church Hill
PANOLA CO.
RUSK CO.
EAST TEXAS
Dalco Interest Lands
Gas Fields
Oil Fields

S.W. Texas — Webb and Dimmit Counties

Dalco has acquired a 47.5% interest in approximately 47,000 gross acres in Webb and Dimmit Counties of Southwest Texas. An aggressive exploration program involving a geophysical program, the recompletion of several existing wells and the drilling of from 6 to 8 wells is initially planned. If this program is successful an extensive development operation involving up to 200 wells will be conducted in the ensuing years. The primary objective is the Upper Cretaceous Olmos Sand which occurs at a depth of 5,500 feet and has tested gas in several old abandoned wells. Secondary objectives occur to depth of 13,000 feet in the Edwards and Sligo reefs.

Texas — Brazoria and Wood Counties

Dalco has committed to a 25% working interest in a 14,000 foot Smackover test in Wood County. The Yantis prospect is seismically controlled and offsets a producing gas field with gas reserves of 90 BCF. In Brazoria County, Dalco has committed to acquire a 25% working interest in the North Allen Dome Prospect. The initial well will be drilled to a depth of 11,000 feet to test potentially productive Frio Sands. The prospect offsets a producing gas field with reserves of 30 BCF.



LAND HOLDINGS

On May 31, 1980, the company owned an interest in 338,167 gross acres or 154,464 net acres of oil and gas rights in Canada and the United States. The following is a summary of these working interests:

	DEVELOPED		UNDEVELOPED	
	Gross	Net	Gross	Net
CANADA				
Alberta	85,233	50,056	105,985	41,641
British Columbia	3,371	962	15,512	3,538
	88,604	**51,018**	**121,497**	**45,179**
UNITED STATES				
Texas	960	617	65,680	31,598
Oklahoma	1,300	143	2,150	498
South Dakota	0	0	46,000	19,665
Other States	1,400	480	10,576	5,266
	3,660	**1,240**	**124,406**	**57,027**
TOTAL	**92,264**	**52,258**	**245,903**	**102,206**

The company is continuing an active Canadian drilling and lease acquisition program with an emphasis on oil prone prospects. However, gas prone prospects are being added to the land inventory in anticipation of gas markets becoming available in two to three years. The company has made a very rapid expansion into the United States due to the very attractive investment opportunities available as compared to the domestic scene. Further lease acquisition is anticipated in East Texas, Central Texas and Oklahoma as well as participation in wells in other states. We are evaluating other areas of exploration in international prospects both onshore and offshore which may lead to other lease acquisitions.

Lynn Dyson, Land Administrator

Rick Cheetham, Land Manager

RESERVES AND PRODUCTION

The Company's chief assets to which values can be assigned are its reserves. The following table summarizes the company's reserve holdings in terms of volume of oil and gas and the value attached to these as determined from the reports prepared by independent petroleum engineers, Kloepfer Coles Nikiforuk Pennell Associates Ltd. The company's daily production of gas increased 12% from the previous year with an average of 16.01 MMCFD produced during the fiscal year ending May 31, 1980. The total production for this period was 5.861 BCF.

Dalco's average daily production of oil increased 83% to 132 barrels during the fiscal year. The company's remaining proven reserves at the end of the period, as calculated by independent engineers, increased 10.8% for gas to 80.7 BCF and 46.3% for oil to 949,500 barrels. These reserves are net to the company's working interest after deduction of royalties and allowing for the production taken during the year. The future undiscounted cash flow from the proven reserves was calculated at $619,960,000. Using a 12% discount factor the present worth of this cash flow was determined to be $125,800,000 at May 31, 1980 and showed an increase of 32%.

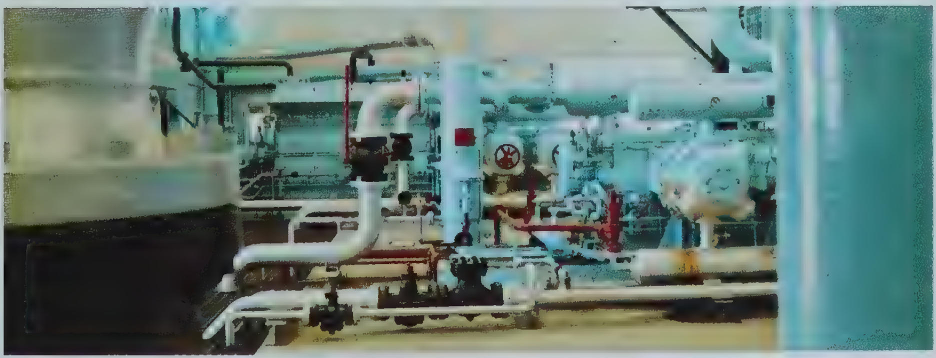
CORPORATE RESERVES

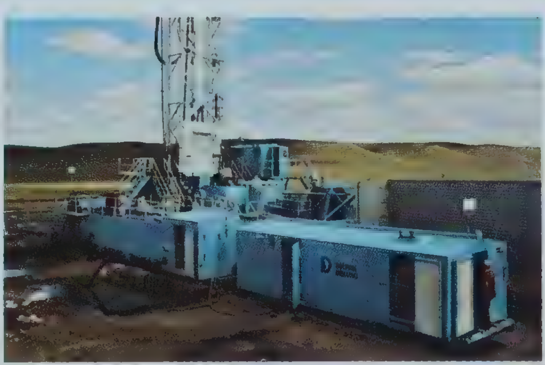
	Reserves				Present Worth(1) millions of dollars	
	Gross		Net			
GAS (BCF)	**1980**	**1979**	**1980**	**1979**	**1980**	**1979**
Proven						
Alberta	194.5	198.3	78.8	74.3	$109.2	$ 84.0
British Columbia	5.8	—	1.3	—	1.3	—
Texas	1.1	—	0.4	—	0.9	—
Oklahoma	2.2	—	0.2	—	0.3	—
Total	203.6	198.3	80.7	74.3	111.7	84.0
Probable Additional						
Alberta	8.5	4.0	2.3	0.6	1.8	0.2
Texas	0.6	—	0.3	—	0.5	—
Total Probable	9.1	4.0	2.6	0.6	2.3	0.2
TOTAL GAS	**212.7**	**202.3**	**83.3**	**74.9**	**114.0**	**84.2**
OIL (BBLS × 1000)						
Proven						
Alberta	3382.2	3293.0	861.3	830.1	12.2	11.0
Texas	192.7	—	63.7	—	1.3	—
Oklahoma	296.0	—	24.5	—	0.6	—
Total	3870.9	3293.0	949.5	830.1	14.1	11.0
Probable Additional						
Alberta	2078.6	2445.0	433.9	369.6	5.2	3.9
Texas	8.9	—	4.9	—	0.1	—
Total Probable	2087.5	2445.0	438.8	369.6	5.3	3.9
TOTAL OIL	**5958.4**	**5738.0**	**1388.3**	**1199.7**	**19.4**	**14.9**
GRAND TOTAL					**$133.4**	**$ 99.1**

(1) 12% Discount Factor

Five Year Operations Summary

	1980	1979	1978	1977	1976
GROSS PRODUCTS SALES					
Natural Gas — MMCFD					
Alberta	16.01	14.28	14.34	14.02	10.70
Crude Oil — BOPD					
Alberta	132.0	72.0	1.0	—	—
AVERAGE SALE PRICE					
Natural Gas $/MCF	2.056	1.535	1.405	1.124	0.815
Crude Oil $/BBL	14.04	12.68	10.85	—	—
PROVEN RESERVES					
Natural Gas — BCF	81	74	48	31	25
Crude Oil — BBLS × 1000	950	830	77	—	—
LAND HOLDINGS					
Canada — Gross Acres	210,101	117,155	77,839	44,806	42,246
— Net Acres	96,197	57,156	42,154	33,510	32,230
United States — Gross Acres	128,066	—	—	—	—
— Net Acres	58,267	—	—	—	—
Total — Gross Acres	**338,167**	**117,155**	**77,839**	**44,806**	**42,246**
— Net Acres	**154,464**	**57,156**	**42,154**	**33,510**	**32,230**
WELLS DRILLED					
Gas	48	33	68	36	59
Oil	19	1	3	0	0
Dry	11	8	3	0	0
Total	**78**	**42**	**74**	**36**	**59**





Drilling Division

DOLPHIN DRILLING

This division of the company commenced operations in October of 1975 with one 3,000 ft. capacity rig. It has since grown to the point that a fourth rig is nearing completion and will shortly join the Alberta drilling scene. This will bring the Dolphin division fleet to two 3,000 ft. and two 6,000 ft. capacity rigs. These have been fully utilized in the past year in central and southern Alberta and western Saskatchewan. This division allows Dalco ready access to drilling equipment, however, 91% of the division revenues come from outside sources. During the past year the three operating rigs drilled a total of 223 wells with a total footage of 549,321. The rigs operated an average of 281 operating days which, after taking into account shutdowns for maintenance, spring break-up and other normal shutdowns, constituted virtually the maximum possible activity level.

The Dolphin Division enjoys a particularly good reputation in regard to both equipment and staff and we look forward to another active year.

Dolphin Rig #4

Garth Evans, Drilling Manager

Dolphin Rig #3

Marketing Division

The Marketing Division has just completed an outstanding year with revenues increasing by 247%. This increase was attributed to several factors.

First, an addition to the trading staff allowed for a more comprehensive coverage of accessible markets, and a successful leasing program for our underground LPG storage at Redwater, Alberta, Regina, Saskatchewan and Hutchinson, Kansas.

Secondly, an unusually strong and prolonged crop drying season was experienced in the Mid-Western states followed by a cold winter in most of our market areas, causing continuous strong demand for propane from September through March.

The cut-off of imports from Iran and an unstable international crude oil market created uncertainty through much of 1979 and early 1980. The resultant gasoline shortages and high prices for all competitive fuels increased the demand for butane as a blending agent and octane builder, and propane as a feedstock for the petro-chemical industry.

In Kingfisher County, Oklahoma, a gas processing plant and gathering system is being constructed at a projected cost in excess of three million dollars. The plant was put into partial operation in late March and is presently recovering only condensate, but when fully operational, will recover propanes, butanes and condensates from the rich solution gas.

Bob Comtois, Marketing Manager and Murray Dea, Vice-President Marketing

Financial Review

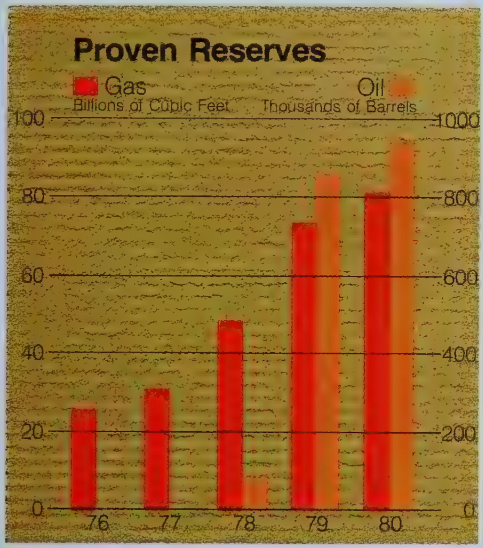
Consolidated net earnings for the year ended May 31, 1980 totalled $3,218,000 or 48¢ per common share as compared with the restated 1979 earnings of $2,040,000 or 32¢ per share and reflected an increase of 64%. The restatement of 1979 net earnings reflects the adoption by the Company of the Full Cost Method of accounting for oil and gas properties as explained in Note 2 to the Notes to Consolidated Financial Statements. Gross income showed an increase of $15,750,000 to $27,575,000 from $11,825,000 last year. Cash flow generated from operations totalled $6,643,000 (99¢ per share) as compared with $2,916,000 (46¢ per share) last year. An additional $9,014,000 was added to the company's working capital through the successful share offerings to the public on February 6, 1980.

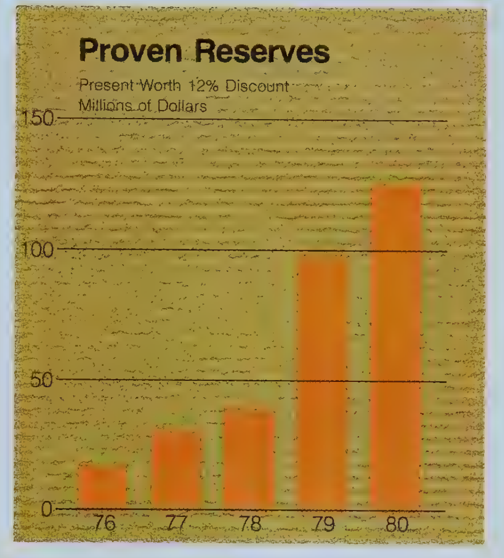
Total capital expenditures during the year amounted to $21,698,000 Capital outlays for the oil and gas operations amounted to $16,322,000 or 75% of the total expenditures. Of this amount $10,000,000 was spent in Canada and $6,322,000 (39%) in the United States. In addition, the company spent, as at May 31, 1980, $1,101,000 towards the estimated completion cost of $1,800,000 for the construction of Dolphin Rig No. 4 and $3,675,000 towards the construction of a gas plant in the United States.

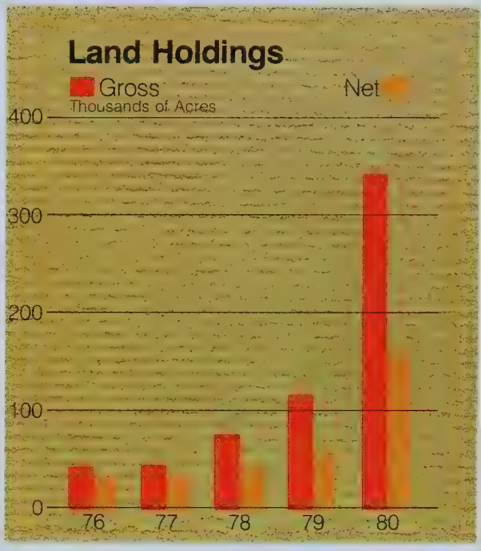
The company's total bank line of credit was $26,000,000 of which $14,660,000 was drawn as of May 31, 1980.

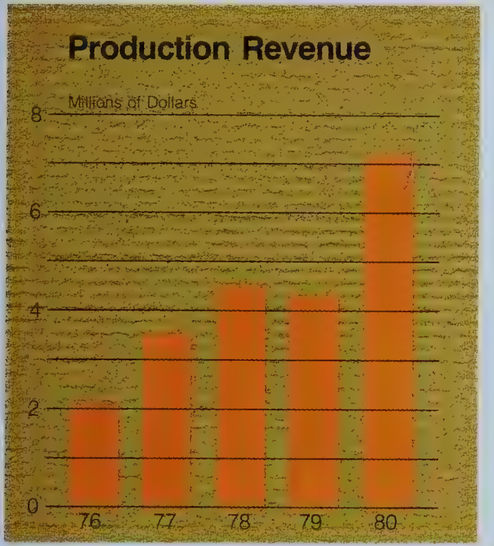
The rate of return (excluding extraordinary items) on average capital employed increased to 12% from 8% in 1979. The 1980 rate was suppressed by the extensive capital outlays during the year with many projects (including acquisition costs) being in the developmental stage at year end.

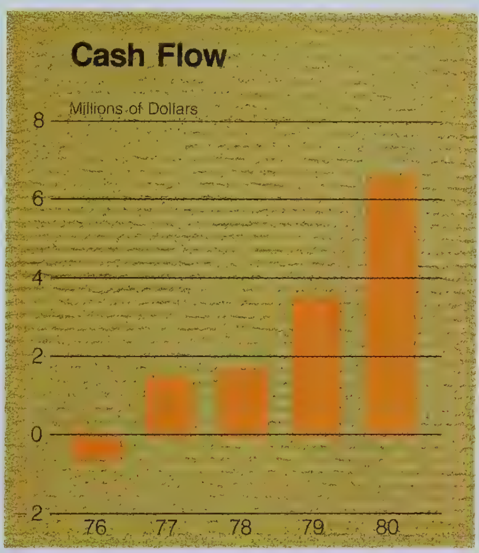
John Schmidt, Manager of Accounting, and Mori Ohara, Treasurer

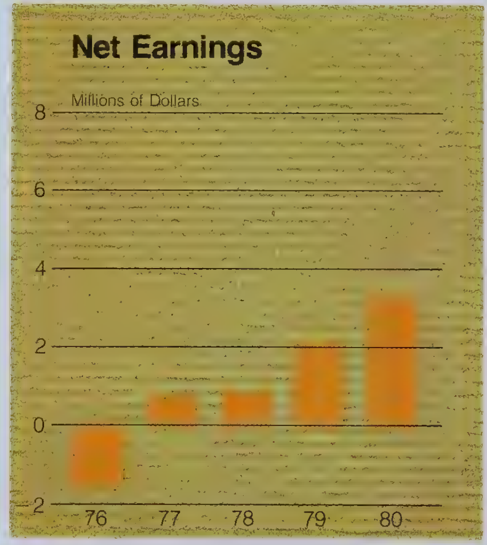

Proven Reserves
Gas
Oil
Billions of Cubic Feet
Thousands of Barrels
100
80
60
40
20
0
1000
800
600
400
200
0
76
77
78
79
80


Proven Reserves
Present Worth 12% Discount
Millions of Dollars
150
100
50
0
76
77
78
79
80


Land Holdings
Gross
Net
Thousands of Acres
400
300
200
100
0
76
77
78
79
80


Production Revenue
Millions of Dollars
8
6
4
2
0
76
77
78
79
80


Cash Flow
Millions of Dollars
8
6
4
2
0
2
76
77
78
79
80


Net Earnings
Millions of Dollars
8
6
4
2
0
2
76
77
78
79
80

DALCO PETROLEUM LTD.

Consolidated Balance Sheet

May 31, 1980
(with comparative figures for 1979)

Assets

	1980	1979
		(restated)
Current assets:		
Cash and term deposits	$ 285,000	273,000
Accounts receivable	5,490,000	3,665,000
Inventories	1,219,000	423,000
Other	140,000	94,000
Total current assets	7,134,000	4,455,000
Investments in and advances to associated companies:		
Shares at cost (quoted market value — $218,000; 1979 — $87,500)	50,000	50,000
Advances	—	2,074,000
	50,000	2,124,000
Property, plant and equipment (Note 3)	39,093,000	17,438,000
Less accumulated depreciation and depletion	(4,554,000)	(2,977,000)
Net property, plant and equipment	34,539,000	14,461,000
Other assets (Note 4)	2,083,000	419,000
Prepaid income taxes (Note 11)	607,000	607,000
	$44,413,000	22,066,000

See accompanying notes to consolidated financial statements.

Liabilities and Shareholders' Equity

	1980	1979 (restated)
Current liabilities:		
Bank loan	$ —	200,000
Accounts payable and accrued liabilities	5,964,000	2,717,000
Income taxes payable	—	72,000
Current portion of long-term debt	500,000	390,000
Total current liabilities	6,464,000	3,379,000
Deferred revenue (Note 5)	3,667,000	2,908,000
Deferred income taxes	3,595,000	2,065,000
Long-term debt (Note 7)	16,035,000	12,358,000
Convertible debentures (Note 8)	658,000	—
Shareholders' equity:		
Share capital (Note 9)	9,422,000	2,000
Retained earnings	4,572,000	1,354,000
	13,994,000	1,356,000
Commitments and contingencies (Notes 10 and 11)		
	$44,413,000	22,066,000

Approved on behalf of the Board:

Wayne Gray, Director

Director

DALCO PETROLEUM LTD.

Consolidated Statement of Earnings

Year ended May 31, 1980
(with comparative figures for 1979)

	1980	1979 (restated)
Revenue:		
Oil and gas	$ 7,203,000	4,356,000
Marketing	13,628,000	4,003,000
Drilling	6,024,000	3,278,000
Interest and other	720,000	188,000
	27,575,000	11,825,000
Costs and expenses:		
Oil and gas	814,000	500,000
Marketing	11,711,000	3,450,000
Drilling	4,273,000	2,112,000
General and administrative	2,238,000	1,656,000
Interest on long-term debt	2,387,000	1,369,000
Depreciation, depletion and amortization	1,756,000	1,115,000
(Gain) loss on foreign exchange	(10,000)	40,000
	23,169,000	10,242,000
Earnings before unusual item and income taxes	4,406,000	1,583,000
Unusual item:		
Reinstatement of bad debt previously written off	—	920,000
Earnings before income taxes	4,406,000	2,503,000
Income taxes (Note 6):		
Current	—	8,000
Deferred	1,901,000	924,000
Alberta Royalty Tax Credit	(713,000)	(469,000)
	1,188,000	463,000
Net earnings	$ 3,218,000	2,040,000
Earnings per common share	$ 0.48	0.32

See accompanying notes to consolidated financial statements.

DALCO PETROLEUM LTD.

Consolidated Statement of Retained Earnings

Year ended May 31, 1980
(with comparative figures for 1979)

	1980	1979 (restated)
Retained earnings (deficit), beginning of year		
As previously reported	$ 747,000	(1,168,000)
Adjustment of prior years' oil and gas properties (Note 2)	607,000	482,000
As restated	1,354,000	(686,000)
Net earnings, for the year	3,218,000	2,040,000
Retained earnings, end of year	$ 4,572,000	1,354,000

See accompanying notes to consolidated financial statements.

DALCO PETROLEUM LTD.

Consolidated Statement of Changes in Financial Position

Year ended May 31, 1980
(with comparative figures for 1979)

	1980	1979
		(restated)
Working capital provided:		
From operations	$ 6,643,000	2,916,000
Proceeds on issuance of common shares	9,014,000	—
Proceeds on issuance of convertible debentures	658,000	—
Increase in long-term debt	4,336,000	4,884,000
Reduction in advances to associated companies	2,074,000	—
Deferred natural gas revenue	1,028,000	369,000
Sale of property, plant and equipment	—	147,000
Other	—	12,000
Total funds provided	23,753,000	8,328,000
Working capital applied:		
Additions to property, plant and equipment	21,698,000	6,540,000
Reduction of long-term debt	659,000	796,000
Increase in other assets	1,802,000	—
Increase in advances to associated companies	—	1,291,000
Payment of tax under reassessment	—	607,000
Other	—	21,000
Total funds applied	24,159,000	9,255,000
Decrease in working capital	406,000	927,000
Working capital, beginning of year	1,076,000	2,003,000
Working capital, end of year	$ 670,000	1,076,000

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

May 31, 1980

1. Significant Accounting Policies:

   (a) Principles of Consolidation:

   The consolidated financial statements include the accounts of the Company and its wholly-owned U.S. subsidiary, Dalco Petroleum U.S., Ltd.

   (b) Foreign Currency Translation:

   Foreign currencies are translated to Canadian dollars as follows: revenue, costs and expenses at the average rates of exchange during the period; non-current assets and liabilities at rates in effect at dates of transactions; and current assets and liabilities at rates in effect at the end of the period. The resultant gains or losses are recognized in the statement of earnings.

   (c) Oil and Gas Operations:

   The Company follows the full cost method of accounting for petroleum and natural gas properties and related expenditures, under which all costs related to the exploration and development of petroleum and natural gas reserves are capitalized into separate Canadian and United States cost centres. Such costs include those related to lease acquisitions and retention, geological and geophysical activities including overhead related to exploration and development and the drilling of productive and non-productive wells.

   Depletion of petroleum and natural gas properties and depreciation of production equipment are calculated on the unit-of-production method based upon estimated proven developed reserves as determined by independent engineers. Other equipment is depreciated as follows:

Automotive	30% declining balance
Furniture and fixtures	20% declining balance
Leasehold improvements	20% declining balance
Drilling rigs and equipment	10 - 30% declining balance
Gas processing plant (U.S.A.)	10% straight line

   Substantially all of the Company's petroleum and natural gas exploration and production activities are conducted jointly with others and accordingly these financial statements reflect only the Company's proportionate interest in such activities.

   (d) Inventories:

   Inventories of Liquefied Petroleum Gas products are stated at the lower of average cost and current replacement costs.

   (e) Liquefied Petroleum Gas (LPG) Operations:

   Revenue and costs related to the sale, purchase or trading in LPG products are recognized at the time of passage of title, as specified in the related agreements. Passage of title generally takes place upon completion of a particular product move.

   (f) Deferred Natural Gas Revenue:

   The payments received relating to the gas purchase contract are recorded as deferred revenue. The purchaser has the right to recover the take-or-pay volumes during a ten year period. If such volumes are taken, or upon expiration of the contract period, the revenue will be taken into income.

   (g) Investment Tax Credits:

   Income tax expense is reduced by the flow through of allowable investment tax credits.

(h) Earnings Per Share:

Earnings per common share are based on the weighted average number of common shares outstanding during the year. If all outstanding conversion privileges relating to the convertible debentures had been exercised at the beginning of the year, earnings per common share would not have been diluted.

(i) Basis of Presentation:

Dalco Petroleum Ltd. is the result of a statutory amalgamation of M-P Petroleum Ltd. (M-P), Aldis Petroleum Ltd. (Aldis), D & D Drilling Ltd. (D & D), and Yarmouth Petroleum Ltd. (Yarmouth).

Certain of the following Notes to Consolidated Financial Statements may refer to specific predecessor corporations where the distinction is deemed to be of significance in its disclosure.

2. **Change in Accounting Policy:**

The company has changed, on a retroactive basis, the method of accounting for oil and gas operations from the successful efforts to the full cost method whereby certain costs associated with unproductive wells and exploratory costs previously written off have been capitalized. As a result of this change in accounting policy, the retained earnings at May 31, 1979 previously reported as $747,000 has been restated to show a retroactive credit of $607,000 (net of income taxes of $236,000) representing the cumulative amount by which the net book value of oil and gas properties has been increased. Of the $607,000, $125,000 (net of income taxes of $111,000) or $0.02 per share, is applicable to 1979 and has been credited to the statement of earnings for that year with the remainder of $482,000 being credited to deficit at June 1, 1979 previously reported as $1,168,000. Had the Company remained on the successful efforts method of accounting for oil and gas operations, the net earnings for the current year would have decreased by $1,409,000 (net of income taxes of $378,000) or $0.21 per share.

3. **Property, Plant and Equipment:**

	1980			1979
				(restated)
	Assets at Cost	Accumulated Depletion, Depreciation & Amortization	Net	Net
Oil and gas leases and rights including exploration and development costs thereon.				
Canada	$19,353,000	2,419,000	16,934,000	8,458,000
United States	5,930,000	—	5,930,000	—
	25,283,000	2,419,000	22,864,000	8,458,000
Production equipment.				
Canada	4,702,000	1,026,000	3,676,000	3,276,000
United States	427,000	—	427,000	—
	5,129,000	1,026,000	4,103,000	3,276,000
Drilling rigs and equipment	4,714,000	924,000	3,790,000	2,596,000
Other	3,967,000	185,000	3,782,000	131,000
	8,681,000	1,109,000	7,572,000	2,727,000
	$39,093,000	4,554,000	34,539,000	14,461,000

4. Other Assets:

	1980	1979
Employee share purchase plan	$1,711,000	—
Underground storage rights	258,000	406,000
Investment, at cost	76,000	—
Other	38,000	13,000
	$2,083,000	419,000

(a) Employee Share Purchase Plan

During the year, the Company established a share participation plan for its employees pursuant to which the Company made an interest-free five year advance to The Royal Trust Company (the "Trustee"), in the amount of $1,665,000 to enable the Trustee to purchase on behalf of the employees up to 180,000 shares of the Company from Dalco Petroleum Corporation, the U.S. parent, at a cost of $1,665,000. The Company has funded the purchase of shares of the Company at no interest cost to the employees. The Trustee has been authorized to purchase an additional 20,000 shares on the open market, of which 5,300 shares were purchased at a cost of $46,000 as at May 31, 1980. These shares will be held by the Trustee and may be released to the employee purchaser subject to repayment of the proportionate amount of the term loan in amounts up to 20% annually of the shares held for the employee on each anniversary of the plan. The release provision is cumulative but expires at the end of the term of the plan at which time the employee loans relating to this plan mature and become payable.

(b) Underground Storage Rights

In 1977 the Company entered into an LPG storage agreement with an associated company, Hillside Underground Storage Inc., whereby the Company acquired the right to store 300,000 barrels of product during the period from June 28, 1977 to March 30, 1982 for a cash consideration of $669,000. The amount is being amortized on a straight line basis over the period of the agreement.

5. Deferred Revenue:

	1980	1979
Deferred natural gas revenue	$1,397,000	369,000
Deferred revenue — product exchange	2,270,000	2,539,000
Total Deferred Revenue	$3,667,000	2,908,000

(a) Deferred natural gas revenue:

Amounts received for annual contracted gas volumes not taken by purchaser. During the year $1,028,000 was received from the purchaser for contracted volumes not taken.

(b) Deferred revenue — product exchange:

	1980	1979
Reduction in product exchange liability	$6,116,000	6,116,000
Loss on underground storage construction contract	(1,044,000)	(1,044,000)
Over-riding royalties — Odessa	(303,000)	(303,000)
Payment received under royalty agreement	200,000	200,000
Write-down of Dalco Petroleum, Inc. account	(1,857,000)	(1,857,000)
	3,112,000	3,112,000
Amortization	842,000	573,000
	$2,270,000	2,539,000

In 1974 and 1975 a series of transactions were entered into with the El Paso Company (El Paso) and others, which transactions are accounted for as related transactions. Specifically, these transactions are:

(i) Three LPG product exchange agreements between El Paso and M-P;

(ii) The sale to Odessa Natural Corporation (Odessa), a subsidiary of El Paso, of 18% gross over-riding royalty on a property owned by M-P; and,

(iii) The purchase by M-P from El Paso of its 50% interest in an underground storage project.

Product received under the LPG product exchange agreements referred to above was sold to an associated company, Dalco Petroleum, Inc. An amount of $1,857,000 relating to the product exchange agreements was receivable and included in the related transactions.

On September 9, 1976, pursuant to the LPG product exchange agreements El Paso presented an invoice to the American Bank of Odessa for $2,525,000 and subsequently received the escrowed funds, including interest. A mutual termination agreement relieved M-P of its obligation to return product thus extinguishing the liability for product payable of $6,116,000.

The resultant gain on this transaction ($6,116,000) has been reduced by deferred charges on the El Paso transactions and the resulting deferred revenue ($3,112,000) is being amortized to income in amounts proportionate to royalty payments made under the Odessa agreement.

6. Income Taxes:

Total income taxes amounted to $1,188,000 in 1980 and $463,000 in 1979 representing an effective income tax rate of 27% and 18%, respectively. The total is different from the expected amount computed by applying the combined expected Canadian federal and provincial tax rates of 47% to earnings before income taxes. The reasons for this difference are as follows:

	1980	1979
	Amount	(Restated) Amount
Computed tax expense at 47%	$2,071,000	$1,176,000
Add:		
Disallowed payments to Crown, net of provincial rebates and credits	527,000	488,000
	2,598,000	1,664,000
Deduct:		
Resource allowance on resource profits	932,000	570,000
Depletion allowance on production income	464,000	199,000
Reinstatement of bad debt previously written off	—	432,000
Other	14,000	—
	1,410,000	1,201,000
	$1,188,000	463,000

At May 31, 1980, the Company had available capital loss carry-forwards of approximately $326,000 and investment tax credit carry forwards of $795,000.

7. Long-term debt:

	1980	1979
Demand bank loan, bearing interest at prime plus 1% until February 22, 1980 and prime plus 1/2% thereafter, with repayment in multiples of $100,000, at the option of the company, until June 1, 1981 followed by monthly payments over a term of five years. The bank loan is secured by a registered assignment of oil and gas properties under Section 82 of the Bank Act.	$14,160,000	11,100,000
Refinanced short-term debt	700,000	—
	14,860,000	11,100,000
Finance contract, bearing interest at prime plus 3%, repayable in monthly installments of $20,000, with an escalation clause based on drilling activity, plus interest, until September 1983 with a final payment in October 1983. A debenture has been issued providing the finance company with a first fixed and floating charge on certain drilling equipment.	1,078,000	1,567,000
Demand bank loan, bearing interest at prime plus 1/2% with repayment on a revolving basis at the option of the company, but not repayable until after June 1, 1981. The bank loan is secured by a general assignment of book debts.	500,000	—
Other	97,000	81,000
	16,535,000	12,748,000
Less current portion	500,000	390,000
	$16,035,000	12,358,000

The Company will refinance the short-term loan in the amount of $700,000 due to associated companies with proceeds received from long-term bank borrowings under the terms described above.

8. Convertible Debentures:

The Company has agreed to issue to its Directors convertible debentures in the aggregate principal amount of $940,000. At May 31, 1980, $658,000 had been issued. The interest payable on the debentures is equivalent to the interest payable by the Directors on loans incurred by the Directors for the purchase of such debentures. Twenty percent of the face amount of the debentures may be convertible into common shares of the Company annually provided the Director has remained as a director of the Company for that year. The conversion price is set at $9.40 per share.

9. Share Capital:

The authorized and issued share capital of the Company is as follows:

	Authorized	Issued	
		1980	1979
Preferred shares of a nominal or par value of $10 each	1,000,000	—	—
Common shares without nominal or par value	20,000,000	7,350,000	5,000,000

On August 30, 1979, the Directors declared a stock dividend of 1,400,000 common shares to the holders of the Company's common shares.

Pursuant to an underwriting agreement the Company issued a total of 950,000 common shares for $9,420,000, net of related expenses and underwriter's commission which amounted to $460,000 (net of income taxes of $406,000).

At May 31, 1980, 100,000 common shares (1979 — nil) have been reserved for issue under the terms of the Convertible Debentures.

10. Commitments:

The Company is committed under a lease for its office premises until February 1985. The annual rental approximates $104,000. A portion of the leased premises is sublet until December 1980 at an annual rental of approximately $19,000.

The Company entered into lease agreements for the rental of LPG tank cars. The annual rental is approximately $228,000 and the lease agreements expire between April 20, 1988 and February 28, 1990.

The Company entered into a lease agreement for the rental of a gas compressor in Canada. The annual rental is approximately $88,000 and the lease agreement expires October, 1985. The Company also entered into a lease agreement for the rental of a gas compressor and ancillary equipment in the United States. The annual rental is approximately $118,000 (U.S.) and the lease agreement expires October, 1980.

11. Contingencies:

The Company is contingently liable as a guarantor for advances to associated companies in the amount of $2,500,000 (U.S.).

Revenue Canada, Taxation has reviewed certain transactions entered into by M-P during the years 1974 to 1976 and as a result of such review, has assessed additional income taxes. On the advice of its tax counsel the Company has paid assessments in the amount of $607,000, including interest of $108,000. Concurrently, the Company has filed with Revenue Canada Notices of Objection relative to certain of the items reassessed. The Company has provided income taxes relating to certain of these reassessed transactions. If the current reassessments are upheld, the Company would be required to provide for additional income taxes, however, since the ultimate resolution of the assessments is not determinable, no additional provision has been included in the consolidated financial statements. If the Company is not successful in its appeal the additional income taxes will be charged to earnings in the respective period in which the transactions occurred.

The Company is a co-defendant in a lawsuit originally filed May 25, 1976, with a "First Amended Complaint" filed December 6, 1977 in the United States District Court for the District of Kansas. The action was filed by Mid-West Underground Storage, Inc. ("Mid-West") initially against Mr. Louis Porter, Mr. Francis Melland, M-P Petroleums, Inc., Hillside Underground Storage, Inc., and on December 6, 1977, extended to M-P, Dalco Petroleum, Inc. and Hillside, Ltd. The suit alleges a conspiracy between and amongst the co-defendants and seeks damages of approximately $14,000,000 (U.S.) for wrongful alleged diversion of purported corporate opportunities and corporate assets, and for recovery of an alleged shortage of liquid product from the Mid-West facility. Since a Sherman Act violation is also alleged, the damages sought could be trebled in the event the court concludes there is a Sherman Act violation.

On July 30, 1980, judgment was entered on this matter, which judgment provided inter alia that the Plaintiff suffered damages in the sum of $3,912,000 (U.S.) and $750,000 (U.S.) The judgment for $750,000 resulted from an answer to special interrogatories from the jury which indicated that a Sherman Act violation had occurred and that $250,000 (U.S.) damages to the plaintiff resulted from that violation. The court, in entering judgment, is required to treble that amount. In addition, the Plaintiff's attorney fees and costs relating to the Sherman Act violation, which are to be determined later, are part of this judgment. Within the ten-day period provided by law after the entry of the above judgment, Plaintiff and Defendants have filed post-trial motions. The Plaintiff's motion asserts inter alia that the judgment should be altered to provide that all damages suffered by the Plaintiff be characterized as a Sherman Act Violation and should thus be trebled. The Defendants' motions inter alia assert that none of the damages suffered by the Plaintiff involved Sherman Act violations. The $3,912,000 judgment is the subject of one of the Defendants' post-trial motions which seeks to have it set aside or to award a new trial. The basis for this motion is that the amount of the judgment is a certain identifiable sum which related solely to Plaintiff's damages for product shortages, some of which never developed. The Defendants are also moving that the court now hear the question, formerly reserved until the end of trial, of whether, or if so, in what amount, the value of the Plaintiff's settlement with the Company's former Co-Defendant will have on reducing the amounts awarded the Plaintiff as damages.

The appeal period on the verdict has been automatically extended until after disposition of the post-trial motions. Hearing of the post-trial motions is scheduled for September 16, 1980.

Judgment has been stayed upon giving of the personal bond of Mr. Porter secured by 2,000,000 shares of the Capital Stock of Dalco Petroleum Corporation, and upon condition that Mr. Porter shall not sell or otherwise dispose of his capital stock of Great Yellowstone Corporation or of Dalco Petroleum Corporation, and upon the further condition that none of the Defendants will dispose of assets, or permit the disposition of assets, of the defendant corporations or of Dalco Petroleum Corporation, except in the ordinary course of business, all subject to further order of the court.

Pursuant to agreements dated January 22, 1980 Dalco Petroleum Corporation has agreed to indemnify the Company from any liability arising out of the legal proceedings described above and, as security for its obligations under the Indemnity Agreement, has placed 2,000,000 common shares of the Company in escrow with the Royal Trust Company, as Trustee.

12. Business Segment Information:

The operations of the Company are divided into three business segments. Oil and gas include the exploration for, and the development and production of petroleum and natural gas reserves. Marketing includes the purchase and resale of LPG products on the spot market and the resale of natural gas purchased and processed for the extraction of LPGs. The drilling operations involve the activities of three drilling rigs.

The following table shows, as at May 31, 1980, the capitalized costs of the Company's oil and gas properties and accumulated depreciation and depletion related thereto:

	Capitalized Costs		
	Proved Properties	Unproved Properties	Accumulated Depletion and Depreciation
Canada	$18,090,000	5,965,000	3,445,000
United States	3,402,000	2,955,000	—
Total	$21,492,000	8,920,000	3,445,000

The following are costs incurred on oil and gas producing activities during the year ended May 31, 1980.

	Property Acquisition	Exploration Costs	Development Costs	Production Costs	Depletion and Depreciation
Canada	$5,314,000	630,000	4,021,000	814,000	1,162,000
United States	3,170,000	—	3,187,000	—	—
Total	$8,484,000	630,000	7,208,000	814,000	1,162,000

	Assets At Cost	Capital Expenditures For the Year	Revenue
INDUSTRY			
Oil and gas	$30,412,000	16,322,000	7,203,000
Marketing	3,675,000	3,675,000	13,628,000
Drilling	4,714,000	1,598,000	6,024,000
Other	292,000	103,000	720,000
Total	$39,093,000	21,698,000	27,575,000
GEOGRAPHIC			
Canada	$29,061,000	11,666,000	25,947,000
United States	10,032,000	10,032,000	1,628,000
Total	$39,093,000	21,698,000	27,575,000

The following table shows the segmention of net earnings, before income taxes, for the year ended May 31,1980

INDUSTRY AND GEOGRAPHIC	Profit Margin	Depletion, Depreciation and Amortization	Operating Profit
Canada			
Oil and gas	$ 6,367,000	1,162,000	5,205,000
Marketing	1,928,000	159,000	1,769,000
Drilling	1,751,000	378,000	1,373,000
	$10,046,000	1,699,000	8,347,000
United States			
Oil and gas	$ 22,000	—	22,000
Marketing	(11,000)	57,000	(68,000)
	$ 11,000	57,000	(46,000)
Total operating profit			8,301,000
Corporate income and expenses			(3,895,000)
Earnings before income taxes			$4,406,000

Export sales to customers outside Canada were $6,320,000 (1979 — $2,766,000).

13. **Related Party Transactions:**

None of the Directors or Officers of the Company or any shareholder of the Company, and no associate or affiliate of any of them, has any material interest in any transaction which has materially affected or will materially affect the Company, other than the following, or as otherwise disclosed in the Notes to Consolidated Financial Statements:

(a) Pursuant to an agreement dated June 1, 1978 Windermere Petroleum Ltd., Calgary, Alberta has the right to participate for up to 5% of the Company's interest on a working interest basis with the Company in any prospect. Conversely, the Company has the right to participate for up to 95% on a working interest basis in any prospect acquired by Windermere Petroleum Ltd. Mr. Wayne Sharp is the President and controlling shareholder of Windermere Petroleum Ltd. and the President of the Company.

Leprechaun Agencies Ltd. will participate in certain prospects entered into by the Company. Leprechaun Agencies Ltd. supplies the services of Mr. Murray L. Dea, a director and Executive Vice-President of the Company.

Wild Bull Petroleum Ltd. will participate in certain prospects entered into by the Company. Mr. R. D. Weir, Vice-President — Production of the Company, is the president of Wild Bull Petroleum Ltd.

The above companies have participated in certain lease acquisitions and exploration activities of the Company. Their participation is conducted under joint venture agreements similar to unrelated industry partners.

(b) The Company, on February 28, 1980, engaged the services of Regency Financial Services Ltd. for a twelve month period for the aggregate fee of $51,500. Of this amount $17,000 has been paid and charged to earnings for the period ended May 31, 1980. Regency Financial Services Ltd. is beneficially owned by a director of the Company.

(c) Pursuant to a management contract dated October 25, 1979 the Company is required to pay the fees and expenses of Dalco Petroleum Corporation incurred in rendering management services to the Company up to a maximum of $200,000 per annum. In addition, the Company has chartered the jet aircraft of Dalco Petroleum Corporation for which the Company was charged $41,000. Both of these amounts, totalling $241,000 (1979 — $250,000) were charged to general and administrative expenses. Dalco Petroleum Corporation held approximately 74% of the outstanding shares of the Company as at May 31, 1980.

(d) The Company was charged for management services rendered by Dalco Services, Inc. for the construction and management of a gas plant in the amount of $290,000 (1979 — nil). These costs have been included in property, plant and equipment.

(e) The Company charged Dalco Petroleum Corporation interest on advances in the amount of $371,000 (1979 — nil).

(f) During the year, the Company sold Dalco Petroleum, Inc. approximately 2,500,000 gallons of LPG for the sum of $1,600,000.

14. **Remuneration of Directors and Officers:**

The aggregate remuneration paid or payable to directors and senior officers (as defined by the Companies Act, Alberta, which term includes the five highest paid employees of the Company) during the year amounted to $1,011,000 (1979 — $418,000).

Auditors' Report

To the Shareholders
Dalco Petroleum Ltd.

We have examined the consolidated balance sheet of Dalco Petroleum Ltd. as at May 31, 1980 and the consolidated statements of earnings, retained earnings, and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Company as at May 31, 1980 and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the accounting change referred to in Note 2, on a basis consistent with that of the preceding year.

Calgary, Canada
August 19, 1980

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

Management's Discussion and Analysis of the Summary of Operations

	1980	1979
Gross Income	$27,575,000	$11,825,000
Costs and Expenses	23,169,000	10,242,000
Unusual Item	—	920,000
Income Taxes	1,188,000	463,000
Net Earnings	$ 3,218,000	$ 2,040,000
Earnings per share	$0.48	$0.32

Total revenue for the year ended May 31, 1980 increased by $15,750,000 or 133% from 1979. The marketing segment of the company showed substantial increase in demand for LPG during the past winter and accounted for an increase of $9,625,000 from last year. Oil and gas income recorded an increase of $2,847,000 or 65% from 1979. Improvement in price, principally for natural gas from the Medicine Hat field, accounted for an increase of $1,693,000. New production from Nipisi, Cherhill and Redcliff contributed an additional $377,000 in oil and gas income. Drilling income showed an increase of $2,746,000 or 84% from the previous year reflecting a full year of operation for two additional rigs.

Costs and expenses, totalling $23,169,000 for the year, reflected an increase of $12,927,000 or 126% over last year. The cost of LPG sales, in line with increased sales, was higher than last year by $8,261,000 or 239%. The cost of drilling revenue increased by $2,161,000 or 102% due to the higher cost of maintaining the rigs in peak operating conditions. General and administrative expenses, with the addition of staff to service the expanded level of activities this year, showed an increase of $582,000 or 35% over last year. Interest expense showed an increase of $1,018,000 but was considered well in line considering the 1980 capital expenditures of $21,698,000. This is because of the additional sources of funds as discussed elsewhere in this report.

The provision for deferred income taxes, in view of the higher income, showed an increase of $977,000. There were no current taxes payable. The amount receivable from the Alberta Government in the form of a Royalty Tax Credit amounted to $698,000. It is anticipated that the company will attain the level of production next year to enable us to claim the maximum Royalty Tax Credit of $1,000,000.


Dori Fontaine, Production Accountant


Marcia Popoff, Accountant

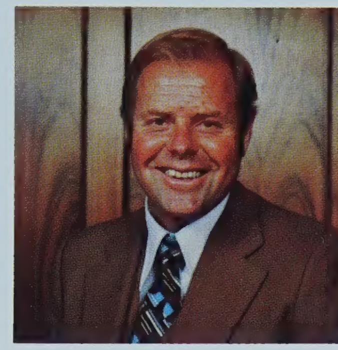
Five Year Financial Summary

	1980	1979	1978*	1977*	1976*
Income					
Oil and gas	$ 7,203,000	4,356,000	4,508,000	3,658,000	2,208,000
Marketing	13,628,000	4,003,000	4,183,000	4,764,000	5,335,000
Drilling	6,024,000	3,278,000	1,155,000	896,000	651,000
Other	720,000	1,108,000	191,000	766,000	1,137,000
Gross Income	$27,575,000	12,745,000	10,037,000	10,084,000	9,151,000
Costs, Expenses, Taxes					
Oil and gas	814,000	500,000	917,000	712,000	244,000
Marketing	11,711,000	3,450,000	4,153,000	4,385,000	5,787,000
Drilling	4,273,000	2,112,000	731,000	673,000	470,000
General & administrative (net)	2,238,000	1,656,000	1,425,000	1,105,000	1,155,000
Interest	2,387,000	1,369,000	794,000	677,000	478,000
Other	(10,000)	40,000	9,000	704,000	1,713,000
Depreciation, depletion	1,756,000	1,115,000	771,000	876,000	594,000
Income taxes (net)	1,188,000	463,000	289,000	302,000	350,000
Cost, Expenses, Taxes	$24,357,000	10,705,000	9,089,000	9,434,000	10,791,000
NET EARNINGS	$ 3,218,000	2,040,000	948,000	650,000	(1,640,000)
Per Common Share	$ .48	.32	*	*	*
FUNDS GENERATED from operations	$ 6,643,000	2,916,000	1,826,000	1,683,000	(696,000)
Per Common Share	$ 0.99	.46	*	*	*
Balance Sheet					
Working Capital	$ 670,000	1,076,000	2,251,000		
Property, plant and equipment	34,539,000	14,461,000	8,904,000		
Other	2,740,000	1,076,000	605,000		
CAPITAL EMPLOYED	37,949,000	16,613,000	11,760,000	*	*
Return on Average Capital Employed	12%	8%			
LONG-TERM DEBT	$16,035,000	12,358,000	8,270,000	*	*
SHAREHOLDERS' EQUITY	$13,994,000	1,356,000	(657,000)	*	*
Common Shares Outstanding	7,350,000	5,000,000	*	*	*
Cost of finding reserves					
Acquisitions and land retention	$ 8,484,000	2,332,000	*		
Geological and geophysical	630,000	—	—		
Development costs	7,208,000	1,753,000	*		
Cost of finding reserves	16,322,000	4,085,000	1,682,000		
Other	5,376,000	2,129,000	568,000		
CAPITAL EXPENDITURES	$21,698,000	6,214,000	2,250,000	*	*

*The figures for 1976, 1977 and 1978 are unaudited and were adjusted to reflect May 31 year ends.
Blank areas indicate figures not available or inappropriate to present.

SENIOR MANAGEMENT

Wayne R. Sharp
President



Murray L. Dea
Executive Vice-President

Robert D. Weir
Vice-President Production

Lorraine Lawrence
Office Manager

Deane G. H. Ross
Vice-President Exploration

Richard E. Cheetham
Secretary and Land Manager

Mori J. Ohara
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